FACTORS AFFECTING ADOPTION OF FINANCIAL ADVISORY SERVICE IN SMALL MEDIUM ENTERPRISE: A CASE OF WATER BOTTLING COMPANIES

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ABSTRACT

Small and Medium-sized Enterprises (SMEs) play an important role in all economies, and are believed to hold the potential to sustainable development and poverty alleviation. Despite the existence of many SMEs, the plight of financial advisory service adoption by SMEs in the country continues to worsen raising questions as to whether the SMEs institutions have adequate capacity to support the adoption financial advisory service. In Kenya, the problem facing SMEs in the adoption of financial advisory service is neither different from the other countries. The SMEs depend, mostly, on informal institutions as they lack an awareness of important business information provision agencies or institutions. SME performance can be increased via receiving information and advice. The evidence indicates that SMEs perceive a benefit from external advisory services from finance officers, but there is a little empirical evidence as few SME have adopted these services. The study targeted 305 companies of mineral water bottling as registered by Kenya Bureau of standards as of 2012. A quota of 30% was established from the target population of 305 companies to give a sample size of 92 companies. The study targeted the entrepreneurs as the respondents to the study. They were selected in a random sampling method. Data analysis was done using SPSS software and Microsoft Excel. Data for this study was quantitative hence descriptive data analysis techniques were employed. Descriptive statistics was employed and arithmetic mean, standard deviation, percentages and frequencies were used to analyze responses to the questionnaire. The study also found that cost of financing the services was too high for them to adopt and to which it hindered SMEs adoption of the services. Personal competence was also another great factor that hinders them from adopting these services. The study recommends that owners should set aside some funds for personal training and in-house training for them to take advantage of the service which will boost their growth in the future

Key Words: Financial advisory Service, Adoption, SMEs

INTRODUCTION

Small and Medium-sized Enterprises (SMEs) play an important role in all economies, and are believed to hold the potential to sustainable development and poverty alleviation (OECD, 2009). According to Strong, Lee and Wang (1997), poor information quality can create chaos. Unless its root cause is diagnosed, efforts to address it can be worthless. According to Ladzani (2001), the priority ranking of the SMEs needs, clearly puts information provision at the top of the list of services to be provided. The SMEs development is hampered by an “information-poor” environment. In most developing countries, market signals on business opportunities, customer trends, methods of organization, etc., are not communicated, effectively, to the SMEs (Ladzani 2001). The SMEs perform better in information-rich environments (Moyi 2000 and Ladzani 2001). To achieve quality within the information rich environment, some notable challenges need to be handled head on. In looking at the challenges, we need to consider them from the three core components i.e. information players, challenges faced and strategies (interventions) so
as to achieve quality information. According to Finnegan, (2000), enterprises obtain new ideas on how to improve their businesses through, for example, increasing productivity, reducing production costs or accessing a more profitable market.

Professional financial advisors play a critical role in assisting SME owner/managers to manage their companies effectively (Mole, 2002). However, provision of information, knowledge and skills as well as advice on the various aspects of a business is insufficient among SMES (Finnegan 2000). According to Bennett and Robson, (2004), SME performance can be increased via receiving information and advice. The evidence indicates that SMEs perceive a benefit from external advisory services from finance officers, but there is a little empirical evidence as few SME have adopted these services (Bennett and Robson, 1999; Robson and Bennet, 2000; Berry et al., 2006). These studies have been carried out in more developed economies. It is therefore against this background that this study seeks to establish the factors that affect the adoption of the financial advisory services among SMEs has not been examined in an emerging economy context. It turns out therefore to be important to conduct a critical assessment of the factors affecting adoption of financial advisory service by the SMEs in Kenya in the mineral water battling companies.

SMEs need to have access to adequate information to enhance productivity and to facilitate market access. The establishment of an active SMEs sector and the effective utilization of quality business information has been identified as crucial in attaining long-term and sustainable economic growth for developed and developing countries, alike (Corps, 2005). However, in most developing countries, the SMEs sector suffers from inadequacies in the provision of business information which is only available from stand-alone institutions; is often slow and cumbersome to access; is limited in scope; and is not provided in an integrated manner (UNIDO, 2005).

According to sessional papers 2 of 2005 shows that SMEs contribute to over 55% of GDP and over 65% of total employment in high income countries. SMEs in emerging markets numerically account for an overwhelming proportion of all business firms, generate 40-50 percent of each country’s GDP, and employ 70-85 percent of the total workforce in each economy. In Africa, a whopping 70% of the population is absorbed in the SMEs sector. The same trend applies to Kenya, the greatest economic hub in East Africa. According to survey World Bank (2008), the sector immensely contributed to new job opportunities by 60%. Thus the role played by SMEs is critical for socio-economic development of the economy. According to Central Bureau of statistics (2012), of all the companies surveyed in that financial year only 5% have every gone for training fully paid by their enterprise while only 15% have been provided with training by financial institutions.

According to Sacerdoti (2005) over the past decade, IFC has played a critical role in helping small and medium enterprises worldwide gain greater access to financing. On the advisory side, IFC supports enhance banks SME operations in areas such as strategy, market segmentation,
product development, risk management, financial advice and IT/ MIS. According to Mwega (2011), despite the existence of many SMEs, the plight of financial advisory service adoption by SMEs in the country continues to worsen raising questions as to whether the SMEs institutions have adequate capacity to support the adoption financial advisory service. According to Mwega (2011), in Kenya, the problem facing SMEs in the adoption of financial advisory service is neither different from the other countries.

According to Okello-Obura et al (2008) shows that the SMEs depend, mostly, on informal institutions as they lack an awareness of important business information provision agencies or institutions. This is inconsistent with the requirement for effective competition in global market. The SMEs need tailor-made information solutions - i.e., business information services that assess, verify and apply information to a specific business problem (Okello-Obura et al 2008). This implies that the issue of quality information becomes evident.

**PURPOSE OF THE STUDY**

The purpose of this study is to establish the factors affecting adoption of financial advisory service in small medium enterprise: A case of water bottling companies.

**THEORETICAL REVIEW**

**Resource Based View theory**

Resource Based View theory posits that with a unique bundle of assets and resources or capabilities, if a company engages it in distinctive ways, it can create competitive benefit (Barney, 1991). Interestingly, consistent with the RBV theorization, SMEs use external accountants as sources of advisory services and decision making to fill up gaps in their internal resource (Goodeham et al, 2004; Doving and Goodeham, 2005; Everaert et al., 2006; Marriott et al., 2008). Therefore, the RBV is imperative to the study of utilisation of external resources and enhancing performance sources (Bennett and Robson, 2004; McIvor, 2009).

**The agency theory**

Agency theory is identified as the dominant theoretical paradigm in the market for traditional financial and audit services (Baiman 1990; Lambert 2001). Even so, hypotheses related to agency costs are tested with relative scarcity in the SME literature. Carey (2009) argue that this might be because SME businesses do not experience adverse selection, moral hazard and holdout problems to the same degree as large private and publicly listed business. The authors develop an application of agency theory to explain SME demand for business advice. They argue that the relationship between the SME owner and the accountant will allow for a reduction in information asymmetry and uncertainty in the contractual arrangement between them regarding business advice, which promotes greater relational interaction in the production of higher-quality business advice.
EMPIRICAL REVIEW

Cost of Financial Services affect Adoption of Financial Advisory Services

The cost of adoption is an important factor in the adoption and utilization of services (Ernst and Young, 2001). Generally, the higher the costs of services, the slower the adoption is likely to be (Davis, 1979). The cost factor was studied by various researchers (Seyal and Rahim, 2006) and found direct and significant relationship between cost and adoption of external services and innovations such as technology. The lower the cost of service, the higher the chance that the services will be adopted by the company and vice versa.

Personal Competence affects Adoption of Financial Advisory Services

Resource Based View theory argues if firms are to grow, they need to obtain expert knowledge from external service providers and then embed the knowledge into their firms (Worrall, 2007). Moreover, RBV explains that SMEs are unable to carry out the accounting function in-house due to inadequate knowledge and unqualified employees (Everaert et al., 2006; Jayabalant et al., 2009). However, many claimed that SME owner/managers are frequently not aware of the range of support services and advice available to them (Liddicoat and Stringer, 2005; Ismail and King, 2007; Ismail and Zin, 2009), due to the unavailability of sufficient evidence of the benefits of such services (Watson, 2003), or lack of support in seeking relevant information (Curran and Blackburn, 2000).

In-house financial advisors

Internal accountants/finance officers are shown to be of important support to the SME owner/managers in running the firm specifically when it comes to the introduction and implementation of changes (Gooderham et al., 2004). For example, in more complex conditions, professional accountants are in a unique position to provide approaches and assist SME owner/managers to achieve their business objectives (Devi and Samujh, 2010). In the developed countries’ context, internal accountants are the main advisers to most businesses on all aspects of doing business (Leung et al., 2008).

Competitive environment affects adoption of financial advisory services

SMEs are unable to continue when they face intense competitive pressure because their resource gap does not permit them to adapt their product (IFAC, 2010). For example, RBV explains the firm facing intense competition needs more resources and support than the firm that does not face competitive pressure (Worrall, 2007). More importantly, in the competitive condition, SME owner / managers should learn how to exploit external resources to assist their enterprises to become more productive and competitive (Worrall, 2007).
RESEARCH METHODOLOGY

Research design and sampling

This study used descriptive survey. Descriptive research is more rigid and seeks to describe uses of a product, determine the proportion of the population that uses a product, or predict future demand for a product, Orodho (2004). The choice of the descriptive survey research design was made based on the fact that in the study, the researcher is interested on the state of affairs already existing in the field and no variable would be manipulated. A Stratified random sampling design was used so as to give each item (strata) in the population an equal probability of being selected. A quota of 30% was established from the target population of 305 companies to give a sample size of 92 companies. The study targeted the entrepreneurs as the respondents to the study. They were selected in a simple random sampling method.

Data Analyses

Data analysis was done using SPSS software and Microsoft Excel. Data for this study was quantitative hence descriptive data analysis techniques were employed. Descriptive statistics was employed and arithmetic mean, standard deviation, percentages and frequencies were used to analyze responses to the questionnaires. The findings were presented using tables and pie charts. Regression analysis was also conducted to establish the form of relationship between dependent variable and the independent variables. The regression equation used was:

\[ Y = a + B_1 X_1 + B_2 X_2 + B_3 X_3 + B_4 X_4 + \ldots + B_n X_n + \epsilon \]

Where:

\[ Y \] = Dependent Variable (Adoption of Financial Advisory Services)

\[ X_1 \] = Cost of financial advisory services

\[ X_2 \] = Personal competence/ Entrepreneur skills

\[ X_3 \] = In-house financial advisors

\[ X_4 \] = Competitive intensity

\[ a \] = the constant

\[ \epsilon \] = error term

RESEARCH FINDINGS AND DISCUSSION

The research findings revealed there was gender disparity as there were more males than females which would be normal since majority of men are more into business ventures. It was also disclosed that majority of the respondents were below 30 years. Majority of the respondents indicated that they had worked from 6 – 10 years. On the aspect of education level of the respondents, it was found out that the majority were in the bachelors’ degree level.
The study sought to find out to what the extent to which the respondents agreed with the following statements on the effect of cost of financial advisory services and SMEs adoption of the services. From the findings, respondents’ moderately agreed that there was difficulty in obtaining financial resources affects SMEs adoption of advisory services because of costs involved as shown by a mean score of 2.6885, respondents disagreed that SMEs will less likely adopt new services when its initial set-up cost is high as shown by a mean score of 2.5082, respondents strongly disagreed that SMEs lack of financial resources to adopt financial advisory services as shown by a mean score of 2.3607.

On the extent on whether personal competence/skills affect the adoption of financial advisory services in your organization majority of the respondents strongly agreed that for firms to grow, they need to obtain expert knowledge from external service providers and then embed the knowledge into their firms as shown by a mean score of 3.0492, respondents agreed that there is unavailability of sufficient evidence of the benefits of such services as shown by a mean score of 3.000, respondents moderately agreed that SMEs are unable to carry out the accounting function in-house due to inadequate knowledge and unqualified employees as shown by a mean score of 2.9016, respondents moderately agreed that SME owner/managers are unaware of their own weaknesses to ask for support and advice as shown by a mean score of 2.5738, respondents disagreed that SME owner/managers are frequently not aware of the range of support services and advice available to them as shown by a mean score of 1.1967.

The study sought to find out the extent to which respondents agree with the following statements on whether in house financial advisors effect adoption of financial advisory services by SMEs. From the findings, the study indicated that respondents agreed that in-house financial advisors hinder SMEs adoption of financial advisory services as shown by a mean score of 2.1148, respondents disagreed that there is lack of support in seeking financial advisory services as shown by a mean score of 1.7869, respondents disagreed that in-house financial advisors do not cooperate with external financial advisors as shown by a mean score of 1.7541.

The study sought to find out the extent to which you agree with the following statements on whether competitive intensity affects adoption of financial advisory services by SMEs. From the findings, respondents strongly agreed that firm facing intense competition needs more resources and support as shown by a mean score of 3.7647, competitive condition prompt SME owner / managers to exploit external resources (financial advisors) to assist their enterprises to become more productive and competitive as shown by a mean score of 3.6765, insufficient qualified professional accountants, prompt SMEs to turn to external accountants for advisory and support services as shown by a mean score of 3.4706, financial advisory services act as a source of support and advice to attain competitive advantage as shown by a mean score of 3.3824, smaller enterprises need external financial advice to broaden their market for achieving competitive advantage as shown by a mean score of 3.2647, the market conditions and regulatory
environment within which SMEs are operating is constantly changing and the demand for business advisory services is also evolving as shown by a mean score of 3.0588.

**Regression Analysis**

A multivariate regression model was applied to determine the relative importance of each of the four variables with respect to adoption of Financial Advisory Services by the SMEs.

**Table 1: Model Summary**

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>0.845(a)</td>
<td>0.714</td>
<td>0.697</td>
<td>0.257</td>
</tr>
</tbody>
</table>

A Predictors: (Constant), Cost of financial advisory services, Personal competence/Entrepreneur skills, In-house financial advisors, Competitive intensity.

The R2 is called the coefficient of determination and tells us how adoption of Financial Advisory Services varied with the factors: cost of financial advisory services, personal competence/entrepreneur skills, in-house financial advisors, competitive intensity. From the table above, the value of R2 is 0.714. This implies that, the independent variable (cost of financial advisory services, personal competence/entrepreneur skills, in-house financial advisors, competitive intensity) explains 71.4% of Adoption of Financial Advisory Services in the SMEs, at a confidence level of 95%.

**Table 2: ANOVA Results**

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>11.718</td>
<td>4</td>
<td>2.930</td>
<td>44.231</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>4.703</td>
<td>71</td>
<td>.066</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>16.421</td>
<td>75</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a Predictors: (Constant), Cost of financial advisory services, Personal competence/Entrepreneur skills, In-house financial advisors, Competitive intensity
b Dependent Variable: Adoption of Financial Advisory Services

The study used ANOVA to establish the significance of the regression model from which an f-significance value of p<0.001 was established. This shows that the regression model has a less than 0.001 likelihood (probability) of giving a wrong prediction. This therefore means that the regression model has a confidence level of 99.9% hence high reliability of the results.
Table 3: Coefficients Results

<table>
<thead>
<tr>
<th></th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>0.116</td>
<td>.186</td>
<td>.623</td>
<td>0.535</td>
</tr>
<tr>
<td>Cost of financial advisory services</td>
<td>0.577</td>
<td>.068</td>
<td>0.559</td>
<td>8.478</td>
</tr>
<tr>
<td>Personal competence</td>
<td>0.157</td>
<td>.043</td>
<td>0.257</td>
<td>3.676</td>
</tr>
<tr>
<td>In-house financial advisors</td>
<td>0.052</td>
<td>.024</td>
<td>-0.139</td>
<td>-2.115</td>
</tr>
<tr>
<td>Competitive intensity</td>
<td>0.038</td>
<td>.001</td>
<td>0.505</td>
<td>7.097</td>
</tr>
</tbody>
</table>

a Dependent Variable: Adoption of Financial Advisory Services

The established regression equation was

\[ Y = 0.116 + 0.577X_1 + 0.157X_2 + 0.052X_3 + 0.008X_4 \]

The above regression model shows that by holding cost of financial advisory services, personal competence/ entrepreneur skills, in-house financial advisors, competitive intensity constant, at zero (constant), the adoption of Financial Advisory Services would be at 0.116, its established that a unit increase in cost of financial advisory services would cause a increase in adoption of Financial Advisory Services by a factor of 0.577 while unit increase in In-house financial advisors hindrances would cause an increase in adoption of Financial Advisory Services by a factor of 0.052. However, an increase in personal competence/ entrepreneur skills would lead to an increase in adoption of Financial Advisory Services by a factor of 0.157 while an increase in competitive intensity would lead to an increase in adoption of Financial Advisory Services by a factor of 0.038.

The study shows a significant relationship between adoption of Financial Advisory Services and the four factors, as shown by the p values; Cost of financial advisory services (p= 0.000<0.05), Personal competence/ Entrepreneur skills (P= 0.000<0.05), In-house financial advisors hindrances (p = 0.038<0.05) and competitive intensity (p= 0.000<0.05). This shows that there is a high correction between the costs of finance to adoption of advisory service

**CONCLUSIONS**

The study concluded that the cost of adoption is an important factor in the adoption and utilization of services. The study also concluded that SMEs need to less adopt new services when its initial set-up cost is high. The study also concluded that perceived cost is another variable that plays an important role for SMEs in determining adoption of any service in their business.

The study concluded that if firms are to grow, they need to obtain expert knowledge from external service providers and then embed the knowledge into their firms. The study concluded
that SME owner/managers are frequently not aware of the range of support services and advice available to them.

**RECOMMENDATIONS**

The study recommended that the firms should lower the cost of service, so as to obtain higher the chances of adoption of services by the company. The study also recommended that SMEs should less adopt new services when its initial set-up cost is high. The study recommended that sophisticated SME owner/managers who are aware of the benefits of compensating their own inadequate knowledge or skills should utilize external service provider.

The study also recommended that those SMEs that are unable to carry out the accounting function in-house due to inadequate knowledge and unqualified employees should seek help from external service provider. The study recommended that external accountants provide much of the financial management and support services for the SME sector. The study recommended that since the external accountants are the main source of advice in terms of frequency, usefulness and significance of advice in SME context they should be utilized in many firms.

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